

FCC MAIL SECTION

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

Apr 23 11 07 AM '92

DA 92-483

In the Matter of)
)
Open Network Architecture Tariffs)
of Bell Operating Companies)
)

CC Docket No. 92-91✓

ORDER DESIGNATING ISSUES FOR INVESTIGATION

Adopted: April 14, 1992; Released: April 16, 1992

By the Deputy Chief (Policy), Common Carrier Bureau:

I. INTRODUCTION AND BACKGROUND

1. On December 27, 1991, and January 31, 1992, the Common Carrier Bureau (Bureau) instituted investigations into the lawfulness of the Open Network Architecture (ONA) rates filed by the Bell Operating Companies (BOCs).¹ We suspended these rates for one day, and imposed accounting orders. On February 21, 1992, the BOCs filed tariffs for other ONA services. The Bureau also initiated an investigation into those rates.² By this Order, we combine these investigations and designate specific issues to be examined. The issues designated are primarily designed to permit examination of the wide disparity in rate levels of BSEs among the BOCs to determine if the various rate levels are reasonable. We also designate some other issues.³

1 Ameritech Operating Companies, Revisions to Tariff F.C.C. No. 2, Open Network Architecture, Memorandum Opinion and Order, 7 FCC Rcd 257 (Com.Car.Bur. 1991) (Ameritech ONA Tariff Order), modified by Ameritech Operating Companies, 7 FCC Rcd 948 (Com.Car.Bur. 1992); Bell Atlantic Telephone Companies, et al., Open Network Architecture Tariffs, 7 FCC Rcd 1512 (Com.Car.Bur. 1992) (ONA Investigation Order). The Bell Operating Companies are the Ameritech Operating Companies, (Ameritech), Bell Atlantic Telephone Companies (Bell Atlantic), BellSouth Telephone Companies (BellSouth), New York Telephone Company and New England Telephone and Telegraph Company (NYNEX), Pacific Bell, Nevada Bell, Southwestern Bell Telephone Company (Southwestern Bell), and US West Communications, Inc. (US West).

2 Ameritech Operating Companies, et al., Open Network Architecture Tariffs, DA 92-273, released Mar. 6, 1992 (Com.Car.Bur.) (BSE Withdrawal Tariff Order).

3 On January 31, 1992, certain BOCs were ordered to tariff some BSEs that those BOCs listed in their ONA plans, but later sought permission to withdraw. Amendments of Part 69 of the Commission's Rules Relating to the Creation of Access Charge Subelements for Open Network Architecture, Filing and Review of Open Network Architecture Plans, CC Docket Nos. 89-79, 88-2, 7 FCC Rcd 811 (Com.Car.Bur. 1992). Pacific Bell complied with this Order in Transmittal No.

2. To develop rates for basic service elements (BSEs), the BOCs have employed the Switching Cost Information System (SCIS) and other computer models to quantify the engineering processes of a central office switch in order to apportion its capacity and cost among the functions the switch provides. In the SCIS Disclosure Order, the Bureau established procedures by which parties in the ONA tariff investigation may examine a redacted version of SCIS, and also found that certain proprietary aspects of these computer models cannot practicably be disclosed on the public record.⁴ Those aspects were referred to an independent auditor together with unredacted SCIS models and related data.⁵ The SCIS Disclosure Order thus established separate in camera mechanisms to examine the validity of the model. We will determine whether further proceedings should be conducted to examine the validity of the models at a later date. This Order designates issues that do not depend upon the validity of the models. These issues can be addressed in the public record without reliance upon confidential information.⁶

II. REASONABLENESS OF BSE OR BSA RATES

3. The SCIS/SCM models permit carriers to specify some variables that affect results. Carriers also make adjustments to model outputs in deriving rates that are not dictated by the model. We are directing the carriers to justify some of these variables or adjustments in order to determine whether they constitute unreasonable methods of rate development, and whether the resulting rates are just and reasonable. The carriers are directed to respond to the following questions:

(1) Is the development of unit investment for BSEs on the basis of the (short run) marginal investment option of SCIS and SCM a reasonable method that is consistent with the Commission's ONA requirements and policies?

BellSouth and Southwestern Bell are directed to respond to this question. Those carriers shall also provide in their direct cases comprehensive alternative BSE rates that reflect use of the average basis assumption within the SCIS model.

1571. Transmittal No. 1571 was suspended for one day and took effect subject to an accounting Order. Id. We are not designating issues that relate to Pacific Bell Transmittal No. 1571 at this time. We may issue a Supplemental Designation Order relating to that transmittal.

⁴ Commission Requirements for Cost Support Material To Be Filed with Open Network Architecture Access Tariffs, 7 FCC Rcd 1526 (Com.Car.Bur. 1992) (SCIS Disclosure Order).

⁵ Id.

⁶ It may also be necessary to designate further issues, other than the SCIS/SCM model's validity, after we have received and examined the independent auditor's report.

(2) Have carriers selected model offices that are representative of offices that will be used to provide BSEs?

For each switching office and remote included in the carriers' investment cost studies, the carriers should provide on the record the corresponding assumptions regarding switch replacement schedule, and switch capacity at replacement, that are used as inputs to develop the SCIS "model office."

It is unclear whether carriers have included all switching offices and remotes in the data used by SCIS to establish the model offices from which SCIS develops cost data for vertical service functions. Therefore, carriers are directed to state in their direct cases whether all switching offices and remotes are included in their model offices and, if not, to describe the methods used to select the facilities represented in the model office. If statistical sampling techniques have been used to develop a model office, the carrier should describe in detail the techniques used.

(3) Is use of a cost of money that exceeds 11.25 percent reasonable?

Carriers that used a cost of money in excess of the authorized 11.25 percent rate of return, either as a SCIS variable or at any other point in the ratemaking process, must explain why the use of such a "cost of money" will not produce excessive BSE rates.

(4) Should 1ESS and/or 1AESS switch costs be included in the development of BSE rates?

We direct those carriers that based their BSE rates in part on costs associated with 1ESS switches and 1AESS switches⁷ to explain why including costs for this switching equipment in BSE rate development is reasonable.

Those carriers must provide a comprehensive listing of BSE rates that would be developed excluding these switch technologies. Cost support for these rates should include a quantitative description of the mix of switch technologies assumed. Furthermore, we direct those carriers to demonstrate how embedded switch technology assumptions promote each of the four Commission goals explained in the Part 69 ONA Order.⁸ Specifically, those carriers should explain (i) how BOC flexibility to price efficiently is furthered by the assumption of embedded switch technology; (ii) how BOC incentives to innovate are fostered by reliance on the embedded technology assumption; (iii) how reliance on embedded technology costs fosters the Commission's stated goal that BOCs not set rates excessively high; and (iv) how reliance on embedded technology furthers the goal that BOCs not engage in unreasonably

⁷ Ameritech, Bell Atlantic, NYNEX, and Pacific Bell include 1ESS and 1AESS switches in their investment for ratemaking purposes.

⁸ Amendments of Part 69 of the Commission's Rules Relating to the Creation of Access Charge Subelements for Open Network Architecture, CC Docket No. 89-79, Report and Order, Order on Reconsideration, and Supplemental Notice of Proposed Rulemaking, 6 FCC Rcd 4524 (1991) (Part 69 ONA Order).

discriminatory pricing.⁹

(5) Are the BellSouth and US West overhead loadings excessive?

Our analysis of overhead loadings, displayed in Attachment A of this Order,¹⁰ reveals that BellSouth and US West apply loadings to their direct costs that significantly exceed the overheads applied by the other carriers and appear excessive.¹¹ We direct BellSouth and US West to explain why their overhead loadings are not excessive.

(6) Have carriers adequately justified their use of nonuniform overhead loadings in pricing BSEs?

A separate issue arises from the fact that certain carriers do not apply uniform overhead loadings to each of their BSEs. Overhead loadings below the level indicated by adherence to uniform practice, as well as loadings exceeding the uniform practice, are indicated in Attachment A. Those carriers so identified should, in their direct cases, either demonstrate that they have applied uniform overhead loadings, or justify the use of each loading that departs from uniform loading practice.

(7) Are differences between BSE rates and unit costs differences justified?

Some BSE rates do not appear to represent the aggregate of direct costs plus overheads. See Attachment B. We direct each carrier, for each ratio between rates and aggregate direct costs (including overheads) that is emphasized in the Attachment,¹² to either demonstrate that the unit costs it used are in fact equivalent to the tariffed rate, or to justify any difference between the rate and the unit costs (direct cost plus overheads).

III. OTHER ISSUES

We are also designating some questions for investigation relating to particular rates or practices of particular carriers. We direct Southwestern Bell to respond to Questions 1 and 2 and direct Ameritech to respond to Question 3.

(1) Are the rates for Southwestern Bell's packet switching BSEs excessive?

⁹ See Part 69 ONA Order, 6 FCC Rcd at 4531, para. 38.

¹⁰ Data from Chart Unit, Line 8, Overhead Loadings/Line 7, Total Direct Costs.

¹¹ For example, BellSouth applies overheads for BSEs that exceed direct costs by a range of 200 percent (Faster Signaling on DID for Each Additional 20 Numbers) to 221 percent (Multiline Hunt Group - Individual Access to Each Port). US West uses overheads that range between 123 percent (Three Way Call Transfer) to 173 percent (DID Trunk Queuing). See Attachment A.

¹² The ratios are emphasized by outlining in the chart.

Southwestern Bell is directed to provide the following information with respect to packet switching BSE rates:

(a) The classification and amounts of investment underlying each of the nine BSEs tariffed in Transmittal No. 2146, and the methods used to determine investment.

(b) Southwestern Bell should identify and fully document all direct costs and overheads applied to the investment identified above, and describe the ratemaking methods used. If the ratemaking methodology differs from the method used for other Southwestern Bell switched access BSEs, Southwestern Bell should explain why a different method was used.

(c) As to ONA elements priced substantially above cost, and allegedly priced to avoid arbitrage between the jurisdictions, Southwestern Bell should explain why it believes avoiding arbitrage justifies such pricing and explain the basis for its expectation that significant arbitrage would result absent such pricing adjustments.

(2) Is the Southwestern Bell access service reports (ASRs) requirement an unreasonable practice?

We direct Southwestern Bell to explain why customers planning to use only the same features and functions under ONA as they used in a feature group offering should be required to submit ASRs.

(3) Should Ameritech be allowed to tariff Call Detail Recording (CDR) as a BSE?

We direct Ameritech to describe in its direct case why it believes tariffing of this service is consistent with the Commission's decision in the Billing and Collection Detariffing Order.

IV. PROCEDURAL MATTERS

A. Filing Schedules

4. This investigation will be conducted as a notice and comment proceeding to which the procedures set forth in this Order shall apply. We designate Ameritech, Bell Atlantic, BellSouth, NYNEX, Pacific Bell, Nevada Bell, Southwestern Bell, and US West as parties to this investigation, and require parties to file direct cases addressing the issues outlined above no later than [30 days after release date of Order]. In their direct cases, the BOCs must respond to each of the issues described in this Order. Moreover, the direct cases must supply all information upon which the BOCs rely to support their positions. Pleadings responding to the direct cases may be filed no later than [30 days after direct cases filed], and must be captioned "Opposition to Direct Case" or "Comments on Direct Case." The parties may each file a "Rebuttal" to oppositions or comments no later than [15 days after oppositions filed].

5. An original and seven copies of all pleadings shall be filed with the

Secretary of the Commission. In addition, one copy shall be delivered to the Commission's commercial copying firm, Downtown Copy Center, Room 246, 1919 M Street, N.W., Washington, D.C. 20554. Also, one copy shall be delivered to the Tariff Division, Room 518, 1919 M Street, N.W., Washington, D.C. 20554. Members of the general public who wish to express their views in an informal manner regarding the issues in this investigation may do so by submitting one copy of their comments to the Secretary, Federal Communications Commission, 1919 M Street, N.W., Room 222, Washington, D.C. 20554. Such comments should specify the docket number of this investigation.

6. All relevant and timely pleadings will be considered by the Commission. In reaching a decision, the Commission may take into account information and ideas not contained in pleadings, provided that such information or a writing containing the nature and source of such information is placed in the public file, and provided that the fact of reliance on such information is noted in the Order.

B. Ex Parte Requirements

7. Ex parte contacts (i.e., written or oral communications which address the procedural or substantive merits of the proceeding which are directed to any member, officer, or employee of the Commission who may reasonably be expected to be involved in the decisional process in this proceeding) are permitted in this proceeding until a final Order is released and after the final Order itself is issued. Written ex parte contacts must be filed on the day submitted with the Secretary and Commission employees receiving each presentation. For other requirements, see generally Section 1.1200 et seq. of the Commission's Rules, 47 C.F.R. §§ 1.1200 et seq.

C. Paperwork Reduction Act

8. The investigation established in this Order has been analyzed with respect to the Paperwork Reduction Act of 1980 and found to contain no new or modified form, information collection, or recordkeeping, labeling, disclosure or other record retention requirements as contemplated under the statute. See 44 U.S.C. § 3502(4)(A).

IV. ORDERING CLAUSES

9. IT IS ORDERED, pursuant to Sections 4(i), 4(j), 201(b), 203(c), 204(a), 205, and 403 of the Communications Act, 47 U.S.C. §§ 154(i), 154(j), 201(b), 203(c), 204(a), 205, and 403, that the issues set forth in this Order ARE DESIGNATED FOR INVESTIGATION.

10. IT IS FURTHER ORDERED that Ameritech Operating Companies, Bell Atlantic Telephone Companies, BellSouth Telecommunications Company, NYNEX Telephone Companies, Pacific Bell, Nevada Bell, Southwestern Bell Telephone Company, and US West Communications, Inc., SHALL BE parties to this proceeding.

11. IT IS FURTHER ORDERED that each carrier shall include a response to each item of information requested in Section II, supra, in its direct case.

12. IT IS FURTHER ORDERED that this Order shall become effective on the date of its adoption.

FEDERAL COMMUNICATIONS COMMISSION

A handwritten signature in black ink, appearing to read "Carl D. Lawson". The signature is stylized with a large, looped initial "C" and a cursive "L" and "S".

Carl D. Lawson
Deputy Chief (Policy),
Common Carrier Bureau

RATIOS OF OVERHEAD LOADINGS TO DIRECT COSTS
(OVERHEAD LOADINGS / DIRECT COSTS*)

COMPANIES	AMTR	BATR	BSTR	NYTC	NETC	PTCA	PTNV	SWTR	USTR
BASIC SERVICE ELEMENTS									
1. ALTERNATE ROUTING (A)**				0.7502	0.5644			0.2200	
2. ANSWER SUPERVISION WITH LINE SIDE INTERFACE (B)	0.6224	0.2789							1.3678
3. CALL DENIAL (E)***						0.2601			
4. CALL DETAIL RECORDING REPORTS (F)	0.6178								
5. CALLED DIRECTORY NUMBER DELIVERY VIA 800/NOX (G)	0.6175								
6. CALLED DIRECTORY NUMBER DELIVERY VIA DID (H)		0.2789				0.2600			1.3798
7. CALLING BILLING NUMBER DELIVERY (AND) (J)	0.6177	0.2789	2.1687	0.7500	0.5663	0.2615	0.1866	0.2237	1.3368
8. DID TRUNK QUEUING (M)		0.2789							1.7213
9. LINE MONITOR SERVICE (Q)		0.2789							
10. MAKE BUSY KEY (R)	0.6183	0.2789				0.2593		0.2131	1.3761
11. MESSAGE DESK (SMD) (S)	0.6161	0.2789	2.1600			0.2592			
12. MESSAGE DESK (SMD) EXPANDED (T)	0.6178								
13. MESSAGE WAITING INDICATOR - ACTIVATION (AUDIBLE) (U)	0.6179					0.2586			
14. MESSAGE WAITING INDICATOR - EXPANDED (V)	0.6177					0.2584			
15. MULTILINE HUNT GROUP (W)	0.6161	0.2789	2.1623	0.7502	0.5644	0.2588	0.1875	0.1975	1.3361
16. MULTILINE HUNT GROUP CIRCULAR (X)	0.6134	0.2789							
17. MULTILINE HUNT GROUP CO-ANNOUNCEMENT (Y)	0.6171			0.7502	0.5644	0.2591		0.2165	1.3798
18. MULTILINE HUNT GROUP INDIVIDUAL ACCESS TO EACH PORT (Z)		0.2789	2.2105						
19. MULTILINE HUNT GROUP OVERFLOW (AA)	0.5985								
20. MULTILINE HUNT GROUP PREFERRED (AB)	0.6210	0.2789							
21. MULTILINE HUNT GROUP UCD WITH QUEUING (AC)	0.6176			0.7502	0.5644	0.2602		0.2162	1.3773
22. MULTILINE HUNT GROUP UNIFORM CALL DISTRIBUTION - LINE HUNTING (AD)	0.6196	0.2789	2.1665	0.7502	0.5644	0.2587	0.1854	0.2293	1.3625
23. NETWORK RECONFIGURATION (AE)						0.1617			
24. SERVICE CODE DENIAL (AF)						0.2601			
25. THREE WAY CALL TRANSFER (AJ)	0.6125	0.2789				0.2599			1.2301
26. THREE WAY CALLING (AM)		0.2789		0.7502	0.5644				1.4375
27. VERIFY INTEGRITY OF SUBSCRIBER						0.2789			
28. PBX						0.2516			
29. FASTER SIGNALING ON DID ESTABLISHMENT OF DID WITH LBSA SERVICE			2.0000						
30. FASTER SIGNALING ON DID EACH ADDL 20 NUMBERS			2.0000						
31. FASTER SIGNALING ON DID OR DID/DOO TRK TERMINATION INCL DIAL PULSE SIGNALING			2.1900						
32. FASTER SIGNALING ON DID DTMF SIGNALING			2.1600						
33. FASTER SIGNALING ON DID DMF SIGNALING			2.1935						
34. MAKE BUSY PER KEY ARRANGEMENT			2.1901						
35. MAKE BUSY PER CUSTOMIZED CENTRAL OFFICE ANNOUNCEMENT			2.1900						
36. 800 SERVICE TO DID EST OF DID W/WATS LINE			2.0000						
37. 800 SERVICE TO DID EACH ADDL 20 NUMBERS			2.0000						
38. 800 SERVICE TO DID OR DID/DOO TRK TERM INCL DIAL PULSE SIGNALING			2.1601						
39. 800 SERVICE TO DID DTMF SIGNALING			2.1900						
40. 800 SERVICE TO DID MF SIGNALING			2.1935						
41. BCLID			2.1900						
42. SCN			2.1901						

NOTES:

- * SOURCE: ONA TRP CHART RATIO LN 3 / CHART UNIT LN 9.
- ** BSE LETTERS IN PARENTHESES REFER TO COLUMNS ON ONA TRP CHART UNIT.
- *** BSES C,D,I,K,L,N,O,P,AF,AG,AH,AJ,AK,AN AND AO ARE INCLUDED IN CHART UNIT BUT WERE NOT OFFERED BY ANY CARRIER. OUTLINED RATIOS DEVIATE SIGNIFICANTLY FROM THE NORM AND REQUIRE EXPLANATION.

RATIOS OF RATE TO UNIT COST
(ANNUAL RATES / ANNUAL COSTS*)

COMPANIES	AMTR	BATR	BSTR	NYTC	NETC	PTCA	PTNV	SWTR	USTR
BASIC SERVICE ELEMENTS									
1 ALTERNATE ROUTING (A)**				0.9235	1.0175			1.0078	
2 ANSWER SUPERVISION WITH LINE SIDE INTERFACE (B)	1.0063	1.0000							1.0000
3 CALL DENIAL (E)						0.9785			
4 CALL DETAIL RECORDING REPORTS (F)	0.92315								
5 CALLED DIRECTORY NUMBER DELIVERY VIA 800/800X (G)	1.0000								
6 CALLED DIRECTORY NUMBER DELIVERY VIA DID (H)		1.0272				0.9977			1.0000
7 CALLING BILLING NUMBER DELIVERY (ANI) (J)	1.0000	1.0999	1.0000	1.0000	1.0000	1.0000	1.9972	1.0108	1.0000
8 DID TRUNK QUEING (M)		1.0000							1.0000
9 LINE MONITOR SERVICE (Q)		1.0000							
10 MAKE BUSY KEY (R)	1.0220	1.0000				0.9900		1.1983	1.0000
11 MESSAGE DESK (SMDI) (S)	1.0283	1.0000	1.0000			0.9997			
12 MESSAGE DESK (SMDI) EXPANDED (T)	1.0215								
13 MESSAGE WAITING INDICATOR -- ACTIVATION (AUDIBLE) (U)	1.0181								
14 MESSAGE WAITING INDICATOR -- EXPANDED (V)	1.0128								
15 MULTILINE HUNT GROUP (W)	0.9945	0.9973	0.9914	0.9990	1.0440	1.0295	1.3158	1.2632	1.0000
16 MULTILINE HUNT GROUP CIRCULAR (Q)	0.9975	0.9973							
17 MULTILINE HUNT GROUP CO-ANNOUNCEMENT (Y)	1.0080			0.9477	0.9989	1.0042		1.0000	1.0000
18 MULTILINE HUNT GROUP INDIVIDUAL ACCESS TO EACH PORT (Z)		1.0418	1.0033						
19 MULTILINE HUNT GROUP OVERFLOW (AA)	0.9908								
20 MULTILINE HUNT GROUP PREFERRED (AB)	0.9970								
21 MULTILINE HUNT GROUP LCD WITH QUEING (AC)	1.0010			0.9930	0.9183	1.0292		1.0000	1.0000
22 MULTILINE HUNT GROUP UNIFORM CALL DISTRIBUTION -- LINE HUNTING (AD)	1.0227	0.9999	0.9931	0.9994	1.0098	0.9929	1.1173	1.2000	1.0000
23 NETWORK RECONFIGURATION (AE)						1.0110			
24 SERVICE CODE DENIAL (AF)						0.9785			
25 THREE WAY CALL TRANSFER (AL)	0.9999	1.0000				0.9990			1.0000
26 THREE WAY CALLING (AM)		1.0041		7.6581	10.4049				1.0000
27 VERIFY INTEGRITY OF SUBSCRIBER						0.9967			
28 PEX						1.0040			
29 FASTER SIGNALING ON DID ESTABLISHMENT OF DID WITH LBSA SERVICE			0.8000						
30 FASTER SIGNALING ON DID EACH ADDL 20 NUMBERS			0.8000						
31 FASTER SIGNALING ON DID OR DID/DOO TRK TERMINATION INCL DIAL PULSE SIGNALING			1.0000						
32 FASTER SIGNALING ON DID DTMF SIGNALING			0.9998						
33 FASTER SIGNALING ON DID DMF SIGNALING			0.4558						
34 MAKE BUSY PER KEY ARRANGEMENT			1.0013						
35 MAKE BUSY PER CUSTOMIZED CENTRAL OFFICE ANNOUNCEMENT			1.0000						
36 800 SERVICE TO DID EST OF DID W/WATS LINE			0.8000						
37 800 SERVICE TO DID EACH ADDL 20 NUMBERS			0.8000						
38 800 SERVICE TO DID OR DID/DOO TRK TERM INCL DIAL PULSE SIGNALING			1.0000						
39 800 SERVICE TO DID DTMF SIGNALING			0.9998						
40 800 SERVICE TO DID MF SIGNALING			0.0815						
41 BCLID			1.0000						
42 SCN			0.9984						

NOTES:

- * SOURCE: ONA TRP CHART "RATIO" LN 3 / CHART "UNIT" LN 9
- ** BSE LETTERS IN PARENTHESES REFER TO COLUMNS ON ONA TRP CHART UNIT.
- *** BSES C,D,I,K,L,N,O,P,A,F,AG,AH,AJ,AK,AN AND AO ARE INCLUDED IN CHART UNIT BUT WERE NOT OFFERED BY ANY CARRIER. OUTLINED RATIOS DEVIATE SIGNIFICANTLY FROM THE NORM AND REQUIRE EXPLANATION.